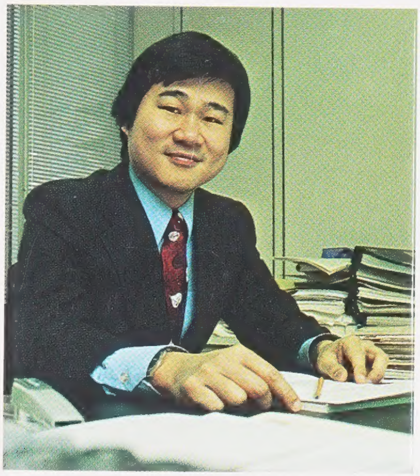
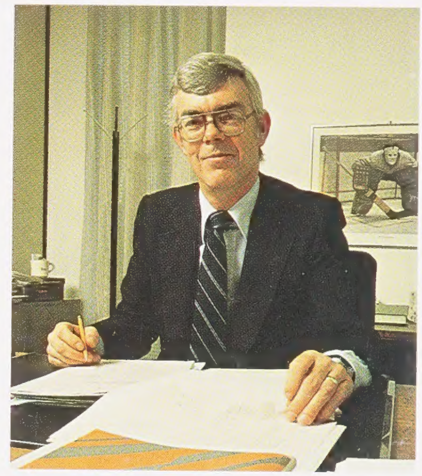
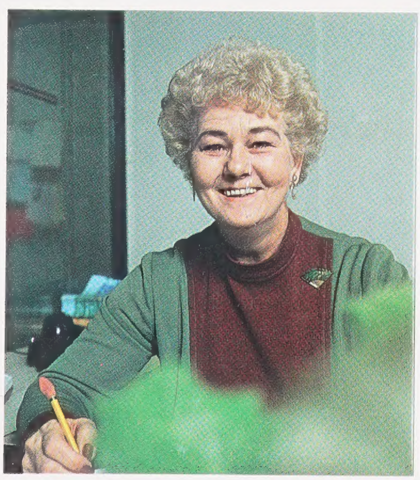
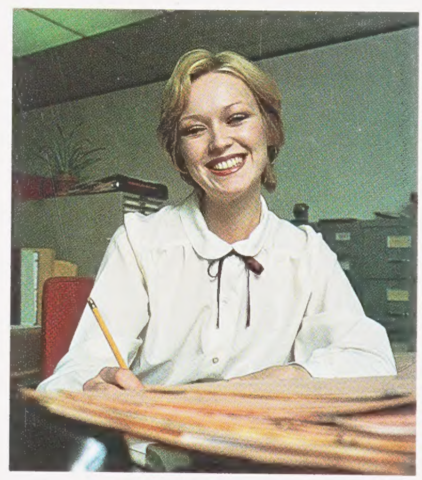
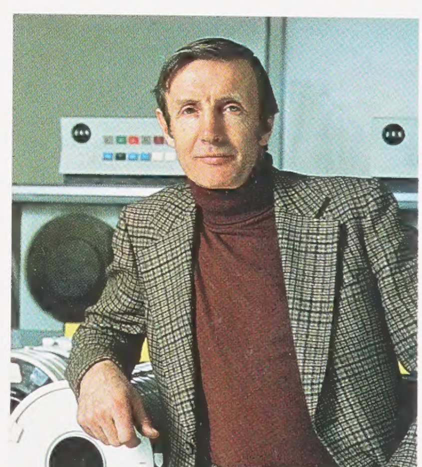
The Imperial Life Assurance Company of Canada

Annual Report 1978





Financial Highlights

The Imperial Life Assurance Company of Canada

	1978	1977
New individual insurance sold	$ 938,830,000	$ 823,312,000
New group life and annuities	491,625,000	357,319,000
Total new insurance sold	1,430,455,000	1,180,631,000
Annual premiums from new sales of individual life and health	23,526,000	11,569,000
New single premiums	24,283,000	25,416,000
New group insurance premiums	11,394,000	7,362,000
Total new premiums	59,203,000	44,347,000
Total insurance in force at year-end	7,670,914,000	6,340,190,000
Death claim payments	21,293,000	18,683,000
Dividends to policyholders	12,106,000	9,957,000
Total payments to policyholders and beneficiaries	88,849,000	84,083,000
Total premium income	163,568,000	135,361,000
Total assets including subsidiary companies	940,056,000	814,028,000
Net interest rate earned	8.76%	7.99%

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La version française du rapport annuel
est disponible au siège social.

Board of Directors

Claude Castonguay, Jean-Marie Poitras and William G. Munro

CLAUDE CASTONGUAY, C.C., F.C.I.A.
Quebec, Quebec
Chairman of the Board,
The Imperial Life Assurance
Company of Canada;
President, The Laurentian Fund Inc.

JEAN-MARIE POITRAS, O.C.
Quebec, Quebec
Vice-Chairman of the Board,
The Imperial Life Assurance
Company of Canada;
President, The Laurentian Mutual
Assurance Company

WILLIAM G. MUNRO, F.L.M.I.
Toronto, Ontario
President, The Imperial Life Assurance
Company of Canada

RENÉ AMYOT, Q.C.
Quebec, Quebec
Vice-President,
The Imperial Life Assurance
Company of Canada;
Partner, Amyot, Lesage, Bernard, Drolet
et Associés

WILBROD BHERER, C.M., Q.C.
Quebec, Quebec
Partner, Bherer, Bernier, Loubier, Côté,
Ouellet, Huot, Houle and Cantin

JOHN B. W. CARMICHAEL
Toronto, Ontario
Company Director

FRANK E. CASE
Brockville, Ontario
Company Director

PHILIPPE DE MONPLANET
Paris, France
Vice-President, L'Abeille-Paix-Vie

JACQUES DOUVILLE
Montreal, Quebec
Executive Vice-President and Chief
General Manager, Bank Canadian
National

ROBERT GACHET
Paris, France
President,
Compagnie Financière du Groupe Victoire

MAURICE GERMAIN
Montreal, Quebec
Company Director

J. DOUGLAS GIBSON, O.B.E.
Toronto, Ontario
Chairman of the Board,
The Consumers' Gas Company

LAWRENCE G. GREENWOOD
Toronto, Ontario
Executive Vice-President,
The Canadian Imperial Bank of Commerce

CLIFFORD T. HACKETT
Weybridge, Surrey, England
Company Director

SIR HENRY JOHNSON, K.B.E.
Chalfont St. Giles
Buckinghamshire, England
Company Director

JOHN A. KEMPTON
London, England
Senior Vice-President and
General Manager for Great Britain,
The Imperial Life Assurance
Company of Canada

THE HON. WALTER S. OWEN, O.C., Q.C.
Vancouver, B.C.
Partner, Owen, Bird

JOHN G. PORTEOUS, Q.C.
Montreal, Quebec
Partner, Ogilvy, Montgomery, Renault,
Clarke, Kirkpatrick, Hannon and Howard

A. ROSS POYNTZ, F.C.I.A.
Toronto, Ontario
Company Director

DONALD J. WILKINS
Toronto, Ontario
Director, Burns Fry Limited

Report of the Directors

The year ended December 31, 1978 was a very successful one for Imperial Life.

Premium income amounted to $163,568,000, an increase of 21%. Investment income of $59,995,000 was substantially in excess of last year.

Changes to the Canadian and British Insurance Companies Act and regulations for 1978 resulted in a new basis of reporting financial results. The 1978 earnings per share on the new basis were $17.65. Of this amount $2.49 per share must be retained in the Company to meet the normal increase in cash value commitments on non-participating policies. On the old basis the 1978 earnings would have been $12.32 per share, compared with $10.36 per share for 1977. Net earnings in the participating life and annuity operations were $8,433,000 of which $4,862,000 has been appropriated to meet the normal increase in cash value commitments on participating policies. Net income for 1978 shows an encouraging improvement over the prior year.

The total of the reserves for insurance and annuity liabilities, including reserves for segregated investment funds, was $710,437,000 at December 31, 1978, which is greater than governmental requirements. The book value of the assets of the Company and its subsidiary companies amounted to $940,056,000 and the net rate of interest earned in 1978 on the life and health assets showed a substantial improvement, increasing to 8.76%.

The volume of new life insurance and annuity business sold in 1978 amounted to $1.43 billion. This included a new record of $939,000,000 on individual lives and $491,000,000 from group life insurance and annuities. These figures attest to the impressive growth of the Company's business.

Payments to policyholders and beneficiaries during 1978 aggregated $88,849,000, including death claims amounting to $21,293,000 and $12,106,000 in dividends to holders of participating policies.

During 1978, Imperial Life reaffirmed its basic philosophy and objectives. More than ever, we are committed to supplying our policyholders with high quality products at fully competitive prices, backed up by the best service possible. This business philosophy will not change and will guide all of our activities.

To help achieve this, the administrative structure of the Company was reviewed and changes were implemented that had become necessary due to growth over the years. The dominant organizational characteristics of Imperial Life are now the delegation of responsibility to the appropriate levels and the development of human resources. Moreover, at the time structural changes were made, emphasis was placed on the promotion of employees who demonstrate ability to assume increased responsibility.

To ensure that the administrative organization of Imperial Life is responsive to present needs in the marketplace, the group insurance and group annuity business was designated as a profit centre and provided with the necessary resources to function effectively. In addition, to cope with planning for the future, the Company has put in place the tools and resources that will guarantee the proper analysis and formulation of short and long term corporate planning.

It is essential that Imperial Life respect fully its commitments to its policyholders, its agents, its employees and its shareholders. In this regard, management has reaffirmed its clear intention to reach cost control objectives.

We feel certain that in reading this report of the Company's activities in 1978 you will share with us the feelings of optimism and confidence evident at all levels of Imperial Life.

On behalf
of the
Board,

CLAUDE CASTONGUAY
Chairman of the Board

Toronto, Canada
February 27, 1979

The Year In Review

William G. Munro, President

As our Chairman has pointed out in the Report of the Directors, 1978 was another successful year for the Company. Not only was it a successful year from the standpoint of financial results, but it was also a year in which our officers and staff adapted admirably to major organizational changes.

Organizational Renewal

The purpose of organizational renewal was to clarify the roles, responsibilities and authorities of Executive Officers and to define the appropriate delegation of duties to other management personnel. The reorganization created an organizational framework to ensure the most effective use of the Company's human resources. In addition, its goal was to provide an organizational structure and a management style which assure the advancement of promising talent, resulting in orderly management succession in the future. I am pleased to say that our management team is made up of highly skilled and experienced people who are committed to improving our position as a major international life insurance company. As a result of the reorganization, they now have all the authority necessary to exercise their skills effectively in their areas of responsibility, along with more clearly defined accountability for their performance.

The reorganization also resulted in the creation of four distinct profit centres: marketing, investments, group insurance and our operations in Great Britain. Supporting these profit centres are several staff divisions such as systems and resources, which groups together a broad range of activities including human resources, data processing, accounting, policyholder service, premises and Head Office support services. Another of these divisions is actuarial services, which is responsible for underwriting and actuarial research. Other departments were either created or restructured to deal with corporate matters: comptroller's office and financial reporting, corporate planning, legal and corporate secretary and public affairs.

These changes are fast realizing the objectives we set for our reorganization and they have taken place as smoothly as could have been expected, given the relatively short time since they were implemented. Overall, the new organizational structure is providing the Company with a flexible and highly productive network that is resulting in accelerating growth and profits.

The number of staff employed by the Company in Canada remained stable through the year, although in some areas staff reductions were achieved through the introduction of improved computer systems, while at the same time increasing productivity. We are continuing to emphasize promotion from

within the Company and in 1978 alone more than one hundred of our Head Office employees undertook new assignments. In order to continue to provide these opportunities and to help prepare our employees for greater responsibilities, we are placing sustained emphasis on human resource planning and training programs.

Another result of the reorganization was the creation of the position of Director—Corporate Planning, the purpose of which is to encourage sound planning in all departments. It is also to ensure that departmental planning is well orchestrated and consistent with the plans of the Board of Directors and the Company's philosophy and objectives. Eventually this will result in the development of computerized planning models. In carrying out his responsibilities, the Director—Corporate Planning helps formulate corporate and departmental objectives and assists in the monitoring of progress towards the achievement of these objectives, thus aiding management to focus continuously on plans and objectives.

Board of Directors

Since 1896, Imperial Life has had many outstanding individuals on its Board of Directors. 1979 sees the retirement of a man whose career places him amongst those whose distinction is of the highest.

The Honourable Walter S. Owen, Q.C. joined the Board of Imperial Life in 1962 and since then has been a most loyal and helpful participant in a wide range of the Company's activities. The Company has been fortunate indeed in having had the services of such a man and it is with admiration and gratitude that we mark the end of his membership on the Board.

New Business

A notable highlight of 1978 was the excellent result achieved by our organization in Great Britain, where total new premium income from all lines increased by 46% to £5,730,000, up from £3,917,000 in 1977. This record production was a remarkable increase and reflects directly the strength of our British sales and administrative organization.

In North America, our new premiums from individual business rose 15% over 1977 to $36,832,000, up from $32,026,000 in 1977, despite the cessation of new business in Trinidad for the whole year and in Jamaica at the end of August.

Total new premium income covering all lines and all areas of our business increased by 33.5% to $59,200,000, compared to $44,347,000 in 1977. A new record volume of $1.43 billion now brings our total business in force to $7.67 billion.

Marketing Innovations

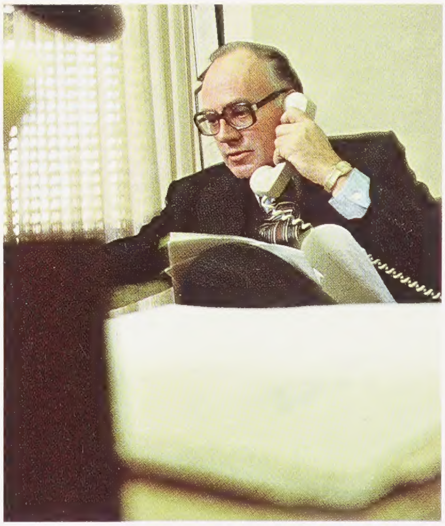
As part of the reorganization of the Company's operations and to give stronger sales and administrative support to our branch offices, regional offices were established in Winnipeg, Toronto, Montreal, Moncton and San Diego. This will enable the Company to provide more efficient service to its policyholders and stimulate a closer working relationship among the branches in each region.

We formed a new Products Concept Committee in order to keep up to date on the latest trends in product development and to introduce new plans as well as to revise old plans so that we will be both competitive in the marketplace and profitable.

We also laid the groundwork for the introduction of an innovative training program for our field force that will help them acquire the skills and tools they need to provide superior service to our prospective clients and policyholders.

Group Insurance

1978 was a particularly successful year in both new sales and growth in annual premium. New business sales in Canada, the United States and the Bahamas totalled $10,500,000—an increase of 64% over the 1977 total of $6,400,000. In-force life and health premiums increased 21.3%, from



$30,200,000 to $36,750,000. Annual pension premium income increased to $19,500,000 from $16,000,000, representing a gain of 21.9%. In addition to sales results, the average size of our policies, measured both in terms of the number of lives insured per group and the premium income per group, increased quite substantially. This reflects our successful entry into the middle-sized market.

We were able to improve the levels of service established in 1977 and, by adding our group health claims payment process to computer terminals, we are now able to provide an efficient claims service that is the finest available in Canada. Steps were taken in 1978 to obtain an administrative support system that would provide the same high level of service for our pension clients.

Investments

The world economy in 1978 experienced significant strains, affecting many countries. However, overall achievements were better than expected and growth, though moderate, was relatively more even amongst the major industrialized nations. Nevertheless, inflation remained a world problem and, combined with extremely high growth rates in money supply and erratic foreign exchange markets, produced a return to high interest rates, despite relatively easy credit conditions. Downward pressure on the Canadian dollar forced Canadians to match the rising interest rates in the U.S. Despite the problem of continuing high unemployment, the lower exchange rate of the Canadian dollar improved the competitive position of the Canadian economy and created a substantial improvement in corporate profits. Thanks to improved investor confidence and substantial tax incentives, the Canadian stock market turned in a particularly strong performance.

Company funds available for investment showed a significant increase in 1978. This was brought about by good control of operating expenses and excellent increases in premium and investment income which reflected high new money interest rates.

Policy loan demand continued at a moderate rate throughout 1978, with total loan balances increasing by only $1,900,000, or 4%.

After providing for these policyholder requirements, funds available for new discretionary investments totalled over $133,400,000, with $97,500,000 in the general funds of the Company and almost $36,000,000 from the various segregated funds we administer.

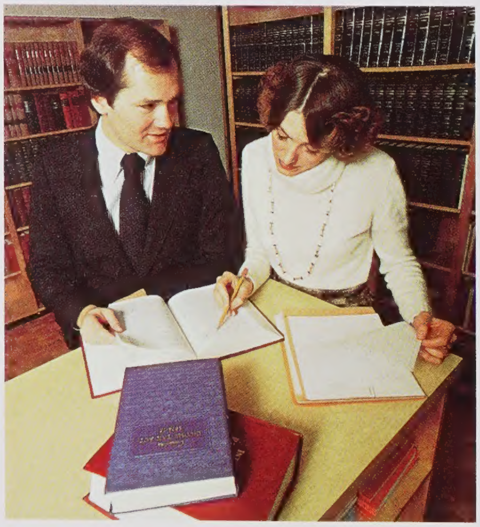
Mortgages again this year were our largest area of investment activity, particularly in Canada, where they provided the high current investment yields needed to support products based on new money interest rates. Over $59,500,000 was committed to new mortgage loans, mostly in Canada. Continued weak housing demand further shifted our Canadian mortgage activity from residential to commercial properties, with only 43% of the year's commitment placed in the housing sector and with greater reliance on private-insured rather than government-insured lending.

Mortgage operations in Canada continued to be distributed all across the country in order to reflect the sources of our premium income.

Despite the trend towards increased commercial/industrial business, 774 housing units were financed in Canada in 36 different municipalities and in all provinces. Including mortgage business in Great Britain, the Bahamas and Trinidad, loans were made during 1978 on some 860 individual properties, providing more than 1,050 units of housing.

Coincident with the significant volume of new lending, total mortgage repayments were unusually high, resulting in a net increase in mortgage investments of only $21,100,000 in general funds and $4,600,000 in segregated funds.

Following last year's restructuring of its Canadian stock portfolio and the resultant net overall reduction in its stock holdings, the Company began early in



1978 to commit the equity reserves it held. By the end of the year, these reserves had been fully reinvested, effecting a net increase of $11,350,000 in stocks held in general funds. For all funds in all areas, stock trading amounted to almost $92,000,000 for the year.

Steadily rising interest rates for bonds tended to limit the extent of our new long-term commitments, particularly given the very high prevailing returns on short-term deposits. Accordingly, only some $5,700,000 net was invested in Canadian bonds and £2,100,000 in U.K. bonds in the general funds of the Company. As a result, despite the substantial deployment of cash into the Canadian stock market, the overall holding of short-term securities increased by more than $9,500,000 over the year.

Imbrook Properties Limited, established late in 1977 as the Company's major property development company in Canada, negotiated projects with a developed cost of $21,900,000. Some $2,700,000 had been advanced as the equity portion of its investments to the end of 1978.

In Great Britain, our property development affiliates, the Castlemere Group, acquired another publicly quoted property company, Property Investment and Finance Limited. Castlemere also consolidated and rationalized its previous acquisitions in preparation for further expansion of its portfolio activities. It now holds property valued at over £10,800,000, with a gross rent roll in excess of £1 million and with additional assets of £2 million represented by its most recent acquisition. We continued our long-term funding program with Castlemere through a further £2 million investment in the group during 1978.

Wholly-owned Impco Properties G.B. Limited continued its planned realization program, while proceeding with the redevelopment of several of its larger property sites.

Impco Health Screening Limited, a wholly-owned Canadian subsidiary operating medical examination and physical fitness facilities and performing consultations, had a most successful year, with a total revenue increase of 27%. It performed nearly 4,700 examinations for 265 corporations.

The changes in reporting methods resulting from the recently revised Canadian and British Insurance Companies Act and its regulations have significantly affected our comparative results in 1978. The treatment of both realized and unrealized investment profits within the revenue and asset accounts and the new market valuation basis for debt securities and real estate have had a major impact on several of the normal measurements of investment performance for the year.

On the adjusted basis, including currency translation changes, Imperial Life's consolidated assets increased by $126,000,000 to a total of $940,100,000. This total includes $179,700,000 of segregated investment funds managed by the Company.

The Company's net investment yield on its general funds increased significantly, partly because of the changes in reporting methods. On the new basis, the yield after expenses for the life and health accounts combined was 8.76%, an increase of 0.77 over 1977. The former accounting basis would have shown a yield increase of 0.50 to 8.49%.

In Conclusion

We are fortunate in having a staff and field force comprised of skilled, loyal and dedicated people, who by their efforts have made the Company strong. I am convinced that with their help we will continue to grow. Their efforts are very much appreciated and on behalf of the Board, I would like to applaud their contributions and express my sincere thanks to them.

W. G. MUNRO

Consolidated Balance Sheet

The Imperial Life Assurance Company of Canada (Incorporated under the laws of Canada)

as at December 31	1978		1977 (restated)	
	(thousands of dollars)			
ASSETS				
Bonds and debentures—at amortized cost (Note 1(c)):				
Government	$104,966		$98,135	
Municipal	6,490		6,726	
Corporate	102,542	$213,998	82,460	$187,321
Preferred and common stocks—at cost (Note 1(d))		88,540		73,285
Mortgages on real estate—at amortized cost (Note 1(e))		307,194		284,220
Loans to policyholders, fully secured by the cash surrender values of these policies (Note 1 (f))		47,945		44,911
Real Estate (Note 1(g)):				
Properties under development—at cost	2,135		766	
Properties held for investment—at cost	57,503		50,422	
Home Office and branch office premises—at cost	15,520		14,645	
	75,158		65,833	
Less accumulated depreciation	10,392	64,766	9,382	56,451
Segregated investment funds' assets—at market value (Note 1(h))		179,747		134,954
Cash and certificates of deposit		14,436		12,781
Premiums in course of collection		5,732		4,655
Accrued investment income		9,276		7,867
Furniture and equipment (Note 1(i))	3,362		2,224	
Less accumulated depreciation	1,415	1,947	873	1,351
Other assets		6,475		6,232
		$940,056		$814,028

On behalf of the Board

C. CASTONGUAY, Chairman of the Board

W. G. MUNRO, President

Auditors' Report

To the Policyholders and Shareholders of The Imperial Life Assurance Company of Canada

We have examined the consolidated balance sheet of The Imperial Life Assurance Company of Canada as at December 31, 1978 and the consolidated statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations for the year then ended in accordance with insurance accounting practices as explained in Note 1 to the consolidated financial statements. These practices have been amended and their consistency is explained in Note 1.

Toronto, Canada
February 7, 1979 (except for note 6 as to which the date is February 14, 1979)

COOPERS & LYBRAND
Chartered Accountants

	1978	1977 (restated)
	(thousands of dollars)	
LIABILITIES		
Present value of liabilities under assurance and annuity contracts (Note 1(j))	$530,690	$471,706
Policy proceeds, dividends and other amounts on deposit	39,322	40,366
Present value of liabilities under Company retirement funds (Note 1(k))	22,553	26,024
Segregated investment funds' liabilities to policyholders	179,747	134,954
Provision for dividends to policyholders	11,600	9,914
Policy claims in course of settlement and provision for unreported claims	19,468	17,460
Bank loans and notes payable on real estate investments	9,443	7,849
Mortgages on real estate investments	7,297	3,559
Income and premium taxes (Note 1(l))	2,096	1,665
Other liabilities and provisions	19,191	12,786
	841,407	726,283
CAPITAL STOCK AND RETAINED EARNINGS		
Capital Stock (Note 1(m)):		
Authorized—200,000 shares of $5 par value		
Issued—200,000 shares	1,000	1,000
Shareholders' retained earnings (Note 1(n))	4,646	3,395
Appropriated retained earnings primarily for solvency purposes (Note 1(o), (p), (q))	38,902	38,197
Retained earnings primarily for the protection of policyholders	54,101	45,153
	98,649	87,745
	$940,056	$814,028

Valuation Actuary's Report

To the Policyholders and Shareholders of The Imperial Life Assurance Company of Canada

I have made the valuation of actuarial liabilities of The Imperial Life Assurance Company of Canada for its consolidated balance sheet as at December 31, 1978 and its consolidated statements of income and retained earnings for the year then ended. In my opinion (i) the valuation conforms to the concepts underlying the proposed Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of actuarial liabilities makes proper provision for the obligations payable in the future under the Company's policies, and (iii) a proper charge on the account of those liabilities has been made in the consolidated statement of income.

Toronto, Canada
February 7, 1979

A. R. Brereton, F.C.I.A.
Actuary

Consolidated Statement of Retained Earnings

The Imperial Life Assurance Company of Canada

for the year ended December 31, 1978
(thousands of dollars)

	SHAREHOLDERS	APPROPRIATED				
		Invested Asset Valuation Reserve	Miscellaneous Asset Valuation Reserve	Reserve for Excess of Policy Cash Surrender Values over Policy Contract Liabilities Participating	Non-Participating	Total
Retained earnings, beginning of year	$ 3,395	$14,125	—	—	—	$14,125
Actuarial liabilities released upon adoption of new Canadian actuarial valuation basis	—	—	—	—	—	—
Net value of non-admitted assets recorded in the books	—	—	—	—	—	—
Establishment of appropriations	—	—	$ 1,639	$10,112	$12,321	24,072
Retained earnings restated, beginning of year	3,395	14,125	1,639	10,112	12,321	38,197
Net income for the year	2,311	—	—	—	—	—
Strengthening of appropriations for the year	—	(5,625)	971	4,862	497	705
Dividends to shareholders	(1,060)	—	—	—	—	—
Retained earnings, end of year	$ 4,646	$ 8,500	$ 2,610	$14,974	$12,818	$38,902
	Note 1(n)	Note 1(o)	Note 1(p)	Note 1(q)		

	UNAPPROPRIATED		
	Participating	Non-Participating	Total
Retained earnings, beginning of year	$28,324	$ 9,029	$37,353
Actuarial liabilities released upon adoption of new Canadian actuarial valuation basis	14,245	15,992	30,237
Net value of non-admitted assets recorded in the books	1,131	504	1,635
Establishment of appropriations	(11,243)	(12,829)	(24,072)
Retained earnings restated, beginning of year	32,457	12,696	45,153
Net income for the year	8,433	1,220	9,653
Strengthening of appropriations for the year	(1,795)	1,090	(705)
Dividends to shareholders	—	—	—
Retained earnings, end of year	$39,095	$15,006	$54,101

Consolidated Statement of Income

The Imperial Life Assurance Company of Canada

for the year ended December 31		1978 (thousands of dollars)
INCOME		
Premiums (Note 3)		$163,568
Interest, dividends and rents after deduction of investment expenses (Note 4)		59,995
Interest and dividends from segregated investment funds		12,270
Net realized and unrealized capital gains on assets of segregated investment funds		7,252
Currency translation gain (Note 1(b))		194
		243,279
THIS INCOME WAS USED FOR		
Death claims		21,293
Disability and health insurance claims		14,227
Matured endowments		5,240
Annuity benefits		7,785
Surrender value benefits		28,198
Additions to funds held for future payments to policyholders		42,529
Additions to segregated investment funds		38,439
Amounts credited to funds on deposit and Company retirement funds		4,692
Commissions, branch office, agency and operating expenses		53,662
		216,065
OPERATING INCOME		27,214
Dividends to policyholders		12,106
INCOME BEFORE TAXES		15,108
Income and premium taxes		3,144
NET INCOME		$ 11,964
Non-participating account	$1,220	
Shareholders' account	2,311	
*Non-participating and shareholders' account	3,531	
Participating life account	$8,433	
*Consolidated earnings per share (basis 200,000 shares)	$17.65	

Notes to Consolidated Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting practices followed by the Company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders. These practices were amended for all insurers for 1978 and subsequent years by regulations under the Canadian and British Insurance Companies Act. These accounting practices differ from generally accepted accounting principles primarily in regard to the accounting for income taxes, the valuation of investments and the treatment of currency translations.

(a) The consolidated financial statements include all subsidiaries of the Company and combine the life, health, and segregated fund insurance branches of the Company.

name of company	percentage of voting equity shares held	location	nature of business
Impco Health Screening Limited	100%	Canada	medical examination service and physical fitness centre
Impco Properties Limited	100%	Canada	property investments
Imbrook Properties Limited	59%	Canada	property investments
Impco Properties G.B. Limited	100%	Great Britain	property investments
its subsidiaries:			
The Invicta Investment Company Limited	100%	Great Britain	property investments
East Layne (Maidstone) Limited	100%	Great Britain	property investments

(b) Foreign currency transfers in cash are reflected at the actual rates applicable to the dates of the transactions. Other foreign currency transactions are recorded at book translation rates adopted for each currency for a fiscal year. The rates are established in accordance with year-end market rates and anticipated prospects for currency relationships. The following book rates were utilized for the translation of foreign currency amounts to Canadian dollars:

	1978	1977
Great Britain pound	$2.00	$1.70
Jamaican dollar	.85	1.10
United States dollar	1.05	1.00
Bahamian dollar	1.05	1.00
Bermudian dollar	1.05	1.00
Cuban peso	1.00	1.00
British Honduras dollar	.45	.45
Trinidad and Tobago dollar	.45	.45

The adoption of new book translation rates on January 1, 1978 produced a book translation gain of $591,000. In addition, the further Jamaican dollar devaluation during the year was provided for by establishment of a loss provision of $397,000 for foreign currency devaluation.

Effective January 1, 1979, the book translation rate has been changed for the United States dollar to $1.10, the Bahamian dollar to $1.10, the Bermudian dollar to $1.10, and the Jamaican dollar to $.70. The resulting book gain in 1979 on currency translation, as a result of using more appropriate translation rates, is $707,000. Assets translated into equivalent Canadian dollars at the new rates will be $645,000 more than at the former rate and liabilities will be $62,000 less than at the former rates.

(c) Investments in bonds and debentures (debt securities) are carried at amortized cost plus or minus the unamortized balance of losses or gains on sales of such securities. The difference between the proceeds on the sale of a bond or debenture and its amortized cost is considered to be an adjustment of future portfolio yield, deferred on the balance sheet and amortized over the period to maturity of the security sold. At December 31, 1978, the unamortized balance added in arriving at the carrying value of bonds and debentures amounted to $459,000.

(d) Investments in stocks (equity securities) are carried at cost plus or minus losses or gains on sale of stocks and adjusted toward market value. The market value adjustment each year is 7% of the difference between adjusted book value and year-end market value of all equity securities. The adjustment account, representing the unamortized gain or loss on sales of stocks and the adjustment toward market, deducted in arriving at the carrying value of stocks amounted to $1,774,000 at December 31, 1978.

(e) Mortgage loans are carried at amortized cost, less principal repayments.

(f) Policy loans are carried at their unpaid balance and are fully secured by the cash surrender values of the policies on which the respective loans are made.

(g) Real estate is carried at cost. Properties held for investment and home and branch office premises are depreciated on a straight-line basis ranging from 1½% to 2½% per annum. Canadian property investment subsidiaries calculate depreciation on buildings on the sinking fund method using a 5% factor. Depreciation on completed buildings is recorded at a rate sufficient to write these assets off over their anticipated useful life, office buildings 50 years, industrial buildings 40 years. Depreciation is not recorded on properties under development or in the British property investment companies.

(h) Investments held for segregated funds are carried at market value. The liability to policyholders equals the net assets in each fund. The Consolidated Statement of Income includes all operating transactions of the segregated funds. The net assets of each fund amount to:

	1978	1977
group contract funds		
Bond	$ 7,300,000	$ 5,628,000
Equity	15,996,000	11,639,000
Mortgage	34,610,000	30,848,000
Diversified	30,941,000	24,807,000
Segregated employer funds	41,367,000	30,612,000
Great Britain Retirement & Death Benefit Fund	6,266,000	—
individual contract funds		
Great Britain Secure Capital	103,000	—
Great Britain Fixed Interest	51,000	—
Great Britain Equity	52,000	3,000
Great Britain Managed	1,664,000	150,000
Great Britain Growth	21,024,000	17,778,000
Great Britain Pension Growth	15,827,000	9,512,000
Impco Growth	979,000	873,000
Impco Retirement Growth	3,567,000	3,104,000
	$179,747,000	$134,954,000

(i) Furniture and equipment is carried at cost less accumulated depreciation provided on the straight-line basis at rates of 20% to 30%.

(j) Amendments to the Canadian and British Insurance Companies Act effective for 1978 and subsequent years permit a new Canadian modified reserving method for all policy actuarial liabilities. This method defers acquisition expenses over the premium paying period of the policy equal to the lesser of 150% of the net level annual premium and the amount that, in the actuary's opinion, represents the true acquisition costs. In establishing the valuation premium, the actuary satisfies himself that the margin between the valuation premium and the gross premium is sufficient to provide for recovery of the acquisition costs along with future administrative expenses and, when taken into account along with any other gains and resources, will enable the Company to meet dividend expectations on an appropriate scale. Rates of mortality, withdrawal, and interest appropriate to the circumstances of the Company and the policies in force are used.

The Company established a mortality fluctuation provision in actuarial liabilities at the end of 1977. A formula adjustment has been developed for mortality strain experience which deviates from the normal range. The provision will be debited or credited annually in accordance with the positive or negative deviation from the range. This will have the effect of neutralizing the impact on net income in any one year and will tend to reduce abnormal deviations in mortality trends over future years.

The actuarial liabilities are:

	1978	1977 (restated)
life		
participating	$334,089,000	$307,566,000
participating mortality fluctuation provision	1,675,000	1,282,000
non-participating	191,395,000	159,651,000
non-participating mortality fluctuation provision	944,000	1,029,000
health		
individual	2,023,000	1,519,000
group	564,000	659,000
	$530,690,000	$471,706,000

(k) The Company has contributory pension plans covering substantially all of its employees and branch managers and retirement benefit arrangements for its full-time agents. The total liability in all funds is made up as follows:

	1978	1977
general funds		
active employees	$ 7,796,000	$ 12,977,000
retired employees	14,757,000	13,047,000
	22,553,000	26,024,000
segregated funds		
active employees	22,061,000	13,680,000
retired employees	967,000	—
	23,028,000	13,680,000
	$ 45,581,000	$ 39,704,000

The Imperial Life Staff Pension Fund provided an improved scale of benefits under a supplementary trust deed effective June 1, 1974. The resulting actuarial deficiency determined on January 1, 1975 amounted to $2,201,000. This amount, together with interest at 7%, is being funded over 14 years. During the year, past service pension costs of $244,000 including interest, have been charged to operations. The deficiency funded to date totals $433,000.

The Imperial Life Retirement and Death Benefit Fund (G.B.) provided an improved scale of benefits under a trust deed effective April 1, 1975. The valuation at December 31, 1977 reflected a surplus of $1,106,000. However, the Company's past service benefits which were being funded over a 14-year period and the future liability have both increased and therefore the funding rate for 1978 was $760,000. During the year, the assets were transferred to a new separate asset fund. The Company was able to contract out of the State Pension Scheme in Great Britain thus saving $190,000 on an annual contribution basis.

(l) The income tax charge against operations and the related liability are determined using the "taxes payable" method.

(m) The Laurentian Fund Inc. held 195,767 (97.9%) of the issued shares of the Company at December 31, 1978. The Fund is a member of the Laurentian Group of companies engaged in the field of general and life insurance. The minority shares are held in the names of 95 shareholders.

The Directors have announced, subject to approval of the Annual and Special General Meeting on March 21, 1979, that effective April 2, 1979 the Company's capitalization is to be divided into one million shares of $1 par value to replace the current 200,000 shares with a par value of $5 a share.

Subject to approval of the Annual and Special General Meeting, a petition will be made to the Minister of Consumer and Corporate Affairs of Canada for the issue of Letters Patent replacing the Special Act of Incorporation of the Company, continuing the Company as a company incorporated by Letters Patent under the Canadian and British Insurance Companies Act, and giving effect to an increase in the authorized capital of the Company to $15,000,000, authority for the declaration of stock dividends, and a restatement of the authority of the Directors to delegate any of their powers to one or more committees.

(n) The transfer from the participating life account to shareholders' account is $967,000 (1977—$788,000) or 7½% of the distributions from the participating account as limited by Section 84 of the Canadian and British Insurance Companies Act. The transfer from the non-participating life account is $1,000,000 (1977—nil).

(o) The invested asset valuation reserve is required by regulation and is maintained to cover both fluctuations in currency translation rates and fluctuations in market values of invested assets compared with book values. At the balance sheet date the appropriation of retained earnings for this purpose is in excess of regulatory requirements.

(p) The miscellaneous asset valuation reserve is required by regulation and is an appropriation of retained earnings equal to the net values of formerly "non-admitted assets". The new procedures provide for these amounts to be booked by insurers. The comparative figures now include in other assets, agents' debit balances, employee loans, leasehold improvements, deferred assets, and separately, furniture and equipment.

(q) Prior to 1978, actuarial liabilities included reserves for excess of policy cash surrender values over policy contract liabilities. These latter amounts were the solvency assurance that actuarial liabilities never fell below the cash surrender values of policies in force. The Canadian and British Insurance Companies Act, Sections 82(4) to (7) specify that for 1978 and subsequent years a method of actuarial liability determination be used which will more appropriately match income and expense. In addition, solvency standards are maintained by an appropriation of retained earnings rather than being included in the income statement. The income statement is therefore more closely related to one produced in conformity with generally accepted accounting principles. The reserve for excess of policy cash surrender values over policy contract liabilities at the beginning of the year was $22,433,000 and was included in the reserves released to retained earnings of $30,237,000. This reserve increased during the year by $4,862,000 for participating policies and by $497,000 for non-participating policies. At December 31, 1978, the reserve was $27,792,000 for both types of policies. This reserve must remain in the Company to meet solvency standards and is not distributable.

(r) The comparative balance sheet figures for the year 1977 have been restated to reflect the actuarial liabilities and the non-admitted assets in conformity with the new Act. It was not possible to adjust bond and stock values for the year 1977 to the new basis.

The income statement for 1978 is not in comparative form as it was not possible to restate 1977 on the new statutory basis.

The comparative figures for the year ended December 31, 1977 were reported upon by the previous auditors.

2. INTERNAL CONTROL

The Company has an internal audit and branch inspection staff resident in Canada and Great Britain who carry out cyclical examinations of Company operations and control procedures. The Audit Committee of the Board of Directors is composed of outside directors who receive quarterly reports of completed branch inspections and audit assignments. Their terms of reference are such that they may make all necessary enquiries of the staff or external auditors to satisfy themselves that control procedures are adequate in the circumstances. The Audit Committee reviews the consolidated statements and management letter with the external auditors and Executive Officers of the Company and makes its report thereon to the full Board of Directors.

3. PREMIUM INCOME

Premium income was derived from the following lines of business:

	1978	1977
participating individual life	$ 54,682,000	$ 44,497,000
participating individual annuity	8,220,000	10,059,000
non-participating individual life	13,630,000	12,524,000
non-participating individual annuity	21,643,000	16,176,000
group life	15,303,000	13,445,000
group annuity	5,637,000	3,911,000
individual health	2,155,000	1,845,000
group health	18,472,000	14,968,000
segregated funds	23,826,000	17,936,000
	$163,568,000	$135,361,000

4. INTEREST, DIVIDENDS, RENTS, AND AMORTIZATION OF INVESTMENT GAINS AND LOSSES

In 1978, the method of computing investment income in accordance with the Act and regulations has been adjusted to reflect the amortization of gains and losses on disposals of bonds and stocks. In addition, stock values are adjusted toward market on a formula basis. Gains or losses on disposal of real estate are also included in investment income. Significant changes are noted below by an asterisk:

		1978
interest, dividends and rents		$ 64,685,000
amortization of bond net losses		(102,000)*
amortization of stock net gains and adjustment toward market		1,789,000*
real estate net gains		142,000*
		$ 66,514,000
Less:		
investment expenses		
general investment expenses	$ 4,184,000	
real estate taxes	1,409,000	
depreciation	926,000	6,519,000
		$ 59,995,000

5. JAMAICA INSURANCE BUSINESS

The Company ceased writing new business in Jamaica on August 31, 1978, at which time most of the agency force joined The Jamaica Mutual Life Assurance Society. On September 8, 1978, the Company entered into an agreement with The Jamaica Mutual Life Assurance Society to transfer to that local company all its business of life and health insurance in Jamaica. The transfer will not take place until the Operative Date, specified in the agreement as 31 days after the final required approval is obtained. It is expected that the Operative Date will be in 1979. The following sequence of approvals are required:

(i) The report of the independent actuary appointed by the two parties and whose report is required under the Insurance Acts in both Canada and Jamaica.

(ii) The approval of the Minister of Finance, Canada, upon the advice of the Superintendent of Insurance for Canada.

(iii) The approval of the Superintendent of Insurance for Jamaica.

(iv) When the above three approvals have been obtained, the sanction of the Supreme Court of Jamaica in accordance with Section 93 of the Insurance Act, 1971 (Act 8 of 1971 of the Laws of Jamaica) will be sought.

Although the agreement has not been concluded, its effective date is December 31, 1977, the date on which the Jamaican policy liabilities were valued and agreed to by both parties. Jamaican assets at equivalent agreed values have been earmarked under the agreement and will be turned over to The Jamaica Mutual at the Operative Date together with any growth in those assets from the operations in Jamaica from January 1, 1978 to the Operative Date. The financial effect of the transfer has not been reflected in these financial statements nor have the Jamaican assets and liabilities been segregated therein. After all requisite approvals have been obtained the transaction will be booked as of the Operative Date. The book value of the liabilities being transferred is approximately $6,700,000 at December 31, 1978 using 1978 rates of currency translation. The Company's total assets and liabilities in Jamaica at December 31, 1978 at book values and 1978 book rates of currency translation were approximately $11,100,000 and $8,200,000 respectively.

6. UNITED STATES COMPANY ACQUISITION

On February 14, 1979, the Company made an offer to acquire Continental American Life Insurance Company of Wilmington, Delaware in a cash merger at a price of $33.00 (U.S.) per share. Continental American has approximately 754,000 shares presently outstanding, and an additional 50,630 shares are covered by outstanding stock options at prices less than $33.00 (U.S.) per share.

Ten-Year Review

(dollar amounts in thousands)

	1978*	1977	1976	1975	1974	1973	1972	1971	1970	1969
Revenue										
Premiums	**$163,568**	$135,361	$132,705	$110,106	$ 98,389	$ 91,550	$ 81,131	$ 76,277	$ 62,767	$ 59,147
Interest, dividends and rents	**72,265**	58,316	51,721	47,786	43,747	38,901	34,508	32,404	30,260	28,290
Total paid or credited to policyholders and beneficiaries excluding dividends	**162,403**	144,635	131,844	115,328	85,430	83,797	85,455	77,249	59,569	55,707
Dividends to policyholders	**12,106**	9,957	10,069	10,061	9,556	8,990	8,813	8,414	7,539	7,285
Commissions, branch office, agency and operating expenses	**53,662**	45,806	44,242	38,973	33,632	29,767	24,357	22,929	20,656	19,937
Dividends to shareholders	**1,060**	920	720	720	700	640	560	510	480	480
Total assets	**940,056**	812,393	756,896	713,595	654,244	621,051	574,184	537,470	501,732	482,820
Life insurance in force	**7,670,914**	6,340,190	6,003,198	5,557,828	4,963,307	4,286,669	3,770,815	3,306,376	3,107,109	2,757,791
Net rate of interest earned	**8.76%**	7.99%	7.57%	7.37%	7.16%	6.93%	6.66%	6.54%	6.38%	6.22%
Earnings per share	**$17.65**	$10.36	$4.65	$7.34	$4.47	$6.01	$5.44	$11.43	$2.20	$7.49
Number of agents	**735**	738	745	723	702	702	633	626	656	644
Number of employees	**1,218**	1,201	1,254	1,253	1,228	1,155	1,096	1,116	1,142	1,163

*Statutory accounting rules were significantly changed effective 1978.

Summary of Capital and Retained Earnings

at December 31
(dollar amounts in thousands)

	1978*	1977	1976	1975	1974	1973	1972	1971	1970	1969
Appropriated										
Participating account	**$23,563**	$10,525	$10,525	$10,525	$ 9,057	$12,057	$12,067	$12,722	$12,372	$ 8,285
Non-participating account	**15,339**	3,600	3,600	3,600	3,270	3,269	3,525	3,604	3,477	2,509
Shareholders'										
Capital stock	**1,000**	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Retained earnings	**4,646**	3,395	3,057	2,754	2,454	2,204	1,951	1,635	1,342	1,109
Unappropriated										
Participating account										
Life retained earnings	**39,095**	28,324	27,189	26,910	30,528	32,160	32,983	33,517	33,339	32,770
Non-participating account										
Life retained earnings	**12,096**	6,546	6,202	7,046	7,381	7,379	6,533	6,344	5,244	5,299
Health retained earnings	**2,910**	2,483	2,013	1,263	934	992	1,273	1,254	998	748

*Statutory accounting rules were significantly changed effective 1978.

Officers and Management of the Company

CLAUDE CASTONGUAY, C.C., F.C.I.A.
Chairman of the Board and Chairman of the Executive Committee of the Board

JEAN-MARIE POITRAS, O.C.
Vice-Chairman of the Board and Vice-Chairman of the Executive Committee of the Board

WILLIAM G. MUNRO, F.L.M.I.
President

RENÉ AMYOT, Q.C.
Vice-President

JOHN B. PURDY, C.F.A., F.L.M.I.
Senior Vice-President—Investments

GRANT D. SYLVESTER, C.L.U.
Senior Vice-President—Marketing

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Vice-President—Systems and Resources

R. LEWIS DUNN, F.C.I.A.
Vice-President—Group Insurance

GORDON H. JOHNSON, F.C.A., F.L.M.I.
Vice-President and Comptroller

ALAN R. BRERETON, F.C.I.A.
Actuary

HUGH C. FARDY, C.L.U.
Director—Marketing Administration

DANIEL M. FLEMING, M.D., D.P.H.
Medical Director

MICHAEL A. HALE, F.C.I.A.
Director—Marketing Planning

G. JAMES HUNTER, C.L.U.
Director—Group Marketing

BRIAN A. HURLEY, A.A.C.I., S.R.P.A.
Director—Mortgage Investments

JOHN H. McMEEKIN, C.F.A., F.L.M.I.
Director—Investment Policy

THOMAS A. MILBURN, F.C.I.A.
Research Actuary

JOHN D. OGDEN, C.L.U.
Director—U.S. Operations

WILLIAM L. STANLEY, F.L.M.I.
Director—Marketing Services

GLENN R. SWANICK, F.C.I.A.
Director—Corporate Planning

W. ALAN TEETER, C.L.U.
Director—Canadian Marketing Operations

PETER M. WALTER, C.F.A., F.L.M.I.
Director—Securities Investments

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General Counsel and Secretary

DONALD C. F. AKEHURST
Manager Conservation

WALTER C. BARCLAY, C.L.U.
Manager Estate Planning

WILLIAM R. BROWN, F.L.M.I.
Manager Group Administration

A. BRUCE BROWNE, F.L.M.I.
Executive Assistant

AUDREY L. CANN
Administrative Manager—U.S. Operations

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Corporate Control Consultant

L. KEITH DEEPROSE, F.L.M.I.
Manager Data Processing

J. CLARKE FRASER
Manager Public Affairs

ROBERT W. HAIG, F.L.M.I.
Associate General Counsel

STEPHEN R. HAIST, F.C.I.A.
Manager Actuarial Services

F. MURRAY HALL, M.D., F.R.C.P. (C)
Associate Medical Director

WILLIAM J. HILL, F.L.M.I.
Manager Head Office Support Resources

R. GARTH HUTCHINSON, F.C.I.A.
Systems Research Specialist

RANDAL W. N. KENNY, C.A., F.L.M.I.
Manager Taxation

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Marketing Controller

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Benefits Consultant

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Group Actuary

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THOMAS PORTER, M.D.
Associate Medical Director

KENNETH C. RIVERS, F.C.I.S.
Manager Mortgage Administration

DONALD R. ROBERTS, F.L.M.I.
Data Systems Co-ordinator

DENNIS SIMMS
Manager Individual Insurance Systems

WAYNE E. SINCLAIR, F.L.M.I.
Marketing Research Co-ordinator

KLAUS M. SOPORA, C.L.U., F.L.M.I.
Marketing Training Director

G. MARSHALL SUMMERS
Manager Premises

JON T. WILKINS, C.L.U.
Director of Group Sales

A. MARTIN N. WILSON, C.A.
Associate Comptroller

GEORGE C. WILSON, C.A., F.L.M.I.
Financial Reporting Consultant

In Great Britain

JOHN A. KEMPTON
Senior Vice-President and General Manager for Great Britain

ROGER H. A. WAIN
Assistant General Manager for Great Britain and Resident Treasurer

W. NICHOLAS ANDERTON, F.I.A.
Actuary for Great Britain

ERIC A. PERCIVAL
Director of Administration and Resident Secretary

CECIL W. WARD
Director of Marketing

ANTHONY F. HOPPER
Director of Special Projects

ELIZABETH F. HOGG
Assistant Director of Administration (Personnel)

GEORGE LAWTON
Assistant Director of Marketing

ERIC R. PATON
Assistant Director of Marketing

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Assistant Director of Administration and Assistant Secretary

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Assistant Director of Marketing

GEORGE K. C. RETTIE, M.D.
Medical Director

MICHAEL C. SPILLMAN
Assistant Director of Marketing

JOHN C. WALTON
Assistant Director of Investments

RONALD F. AGATE
Superintendent—Administration

WILLIAM A. FOOTE
Superintendent—Marketing Administration

ALAN J. JOHNSTON, M.I.O.M. (Dip)
Superintendent—Data Systems

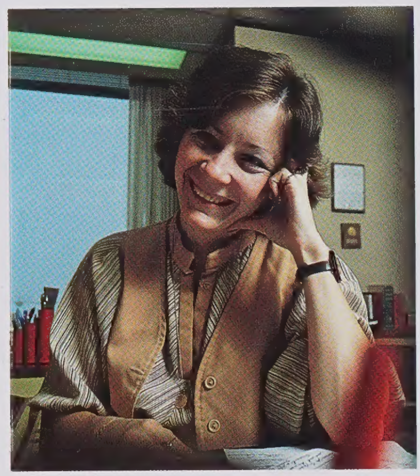
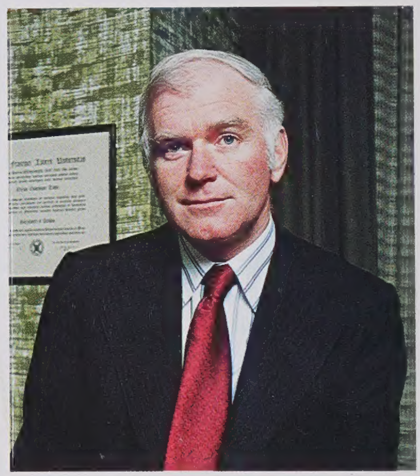
GRAHAM D. JOHNSTON, F.I.A.
Assistant Actuary

WALLACE LAW, F.I.A.
Assistant Actuary—Group

The Imperial Life Assurance Company of Canada



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